City of Santa Fe, New Mexico

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July 1, 2003

TO THE HONORABLE MAYOR, CITY COUNCIL, AND CITIZENS OF SANTA FE:

I am pleased to submit the Fiscal Year 03/04 Budget for the city of Santa Fe. This budget was based on guarded assumptions of economic conditions and included significant one-time transfers into the general fund. Despite uncertainty, the budget maintains all basic services including the personnel, operating costs and equipment needs required to adequately support the current programs for public safety, recreational programs, and maintenance of infrastructure, community services, and administration.

The primary function of city government in Santa Fe is to provide quality customer service to its citizens in a multitude of diverse areas. The city recognizes that services should be provided as efficiently and economically as possible given available resources. In addition, the needs of the community continue to be addressed particularly as they affect children, senior citizens and lower income families. The limited availability of housing in price ranges that working families can afford is another important concern, as the median cost of a home in Santa Fe exceeds the national average.

In total, the city assists in funding 19 human services organizations and 36 children and youth programs, including health education and life skills training, self-help groups, clinic for persons with HIV, adult day care, drug therapy, tutoring, dispute resolution, child care, therapy groups for children of substance abusing parents, as well as funding assistance for a youth shelter, rape crisis center, battered women's shelter, children counseling programs, mental health programs, hot meal program, rental and utility assistance and other counseling programs. The city also continues to fund a number of after school and summer youth recreational programs.

In the area of economic development, \$224,740 was budgeted for firms involved in local economic development and \$92,872 for the development of a new business incubator. In total, economic development initiatives amounted to \$317,612. This funding had been primarily provided from the sale of parcels in an area deemed an industrial park, which has now been fully sold. In light of this, a 1% increment of the city's General Fund state-shared gross receipts tax was allocated to economic development. This amounts to \$326,165 In FY 02/03, an increase from the 3/4% allocated in the prior fiscal year.

The city is continuing its programs to increase the availability of affordable housing with \$614,300 from the General Fund allocated to various housing services to assist families in buying homes.

City departments were required to review and evaluate the costs and the benefits of current programs, the effectiveness of their personnel utilization, and needs and requests from the community. Many difficult decisions were required of the City Manager and City Council in evaluating department requests and programs and in allocating available resources. We are proud of the efforts of all those involved in continuing to provide quality services to the citizens of Santa Fe while striving to become more efficient and effective.

BUDGET OVERVIEW

The city's General Operating Fund pays for the cost of running the day-to-day business of the city. Revenues are derived primarily from local and state-shared taxes, fees and services, licenses and permits, and a variety of other revenues including grants, interest income, and inter-fund transfers. Services are provided by eight major city departments.

REVENUE

Revenue projections were formulated based on historical information and the professional judgment and analysis of the Finance Department staff. Economic information related to state-shared revenues was obtained from the State Department of Taxation and Revenue. Other economic and financial information is solicited from the State of New Mexico Department of Finance and Administration, Santa Fe County, the University of New Mexico Bureau of Business and Economic Research and various national, state and local publications and reports.

The General Operating Fund FY 03/04 *budgeted revenue* is based on total projected revenues of $62,114,703. Compared to the *actual revenue* in FY 02/03 of $59,242,879, the projected growth is 4.8%, an increase of $2,871,824. After discounting $3,196,055 in non-recurring revenue supplements to the FY 03/04 budget, the adjusted net revenue reflects a decrease of $354,231, approximately -.5%.

The following assumptions materially affected the formulation of the General Operating revenue budget:

1. Gross receipts tax revenues had been budgeted at close to a 3.23% increase from the prior year budget. The city continues to experience fluctuating monthly gross receipts tax revenues. The projection for FY 03/04 is essentially the same as the FY 02/03 actuals.

   Historic records and trends for gross receipts are also reviewed, which are as follows:

Fiscal Year 98/99	+7.75%
Fiscal Year 99/00	+6.04%
Fiscal Year 00/01	+2.62%
Fiscal Year 01/02	+2.55%
Fiscal Year 02/03	+4.11%

   Projections are set conservatively at a level below the gross receipts tax revenues realized at the time of budget preparation. The level of the previous fiscal year is also considered. Since the tragic events of 9/11/01, the economic indicators have been mixed with positive factors offset by additional employee layoffs. Considering Santa Fe's reliance on tourism, a highly discretionary economic segment, the relative strength of gross tax receipt revenue is stable.

2. The ¼% municipal gross receipts tax increment was approved beginning in 1992, to fund the transit system with 2/3 of the balance to go to the General Fund to make up a lost increment of gross receipts tax that the state retained and with 1/3 of the balance to fund Quality of Life programs and projects. The amount of funding to General Fund was reduced by $42,000 to $1,353,642.

   The ¼% municipal gross receipts tax increment allocation to transit increased slightly both dollar-wise and percentage-wise. Funding for the fixed route transit operations is $3,683,632 (exclusive of encumbrances) plus a $250,000 match for the federal grant and an allocation of $485,912 for the Santa Fe Ride program for a total of $4,419,544.

EXPENDITURES

In preparing this budget, there were a number of issues and concerns. Key goals were established, as follows:

1. Balance the General Fund matching recurring projected revenues and recurring expenditures, providing for adequate budget for current operations. For the most part, this was achieved. In light of the needs and requirements for various expenditures, this essentially brought operations to the level of the current base budget, with increases (pay packages) offset by reductions (positions). In order to have the reduced revenues cover current base, significant one-time transfers to the General Fund were required. Maintain cash reserves in the General Fund at 10% of expenditures.

2. Maintain key programs, including transit, affordable housing and summer recreation program. Fund Children and Youth programs (3% of state shared gross receipts tax), and Human Services programs (2% of state shared gross receipts tax), and increase the state shared gross receipts tax from ¾% to a full 1% for economic development.

3. Maintain a level of capital outlay replacement in the base General Fund, which was limited by available revenue.

4. Evaluate organizational structures, operations, and technologies to increase efficiencies and reduce costs.

Despite limited resources, most of these goals were met. A number of worthy programs could have been justifiably increased; however, funding was not available.

General Fund Programs

The General Fund is balanced; however, it continues to be stretched to maintain current programs and to support the pay plans. For a number of programs, funding has remained level for several years.

In order to balance the General Fund, $9.9 million of base requests and $813,000 of expansion requests were not recommended for funding. Risk management balances were transferred to supplement available revenue, and risk funds were charged for pre-employment, police and fire physicals, employee assistance, and safety supplies in the amount of $229,100. A vacancy credit of 3.0% was applied. Although these vacancies generally occur without significant impact, departments must exercise caution in filling positions as they become vacant.

After discounting one-time, non-recurring expenditures and encumbrances of $790,365 plus the $395,000 recycling transfer contained in the FY 02/03 budget, the expenditure budget is about 8.2% more than the Fiscal Year 02/03 appropriation. This resulted from the impact of the pay plans, medical and jail contracts costs, as well as increased allocations for Children and Youth, Human Services, Economic Development, the HOME grant, and senior grants in the FY 03/04 budget.

Employee Pay Plan

The budget incorporates the three union contracts negotiated during the past fiscal year as well as provision for non-union pay adjustments.

The non-union pay plan was approved including an increase of $.83/hour base rate adjustment in July 2003.

The American Federation of State, County and Municipal Employees contract was approved with provision for a $.83/hour increase in July 2003. The average percentage increase for AFSCME employees was 5.63% in wages and benefits. This included pay increases to bring all full-time permanent city employees up to the $8.50 minimum required by the Living Wage ordinance approved by the Santa Fe City Council in February 2003.

The firefighters contract was approved with an average increase of 4.27% in wages and benefits. This includes a 1% base rate adjustment in July 2003. The promotions each year of 10% (for firefighters II and III), incentive pays, and annual 1% step increases will continue.

For the police union, the 10% annual promotions (for police officers II, III, IV and detectives II), the 1.0% or 1.5% step increases and certain incentives will continue. The base rate adjustment was 2% for sworn members and 3% for non-sworn members. The average increase was 4.72% in base wages and benefits.

Capital Outlay

For FY 03/04 the only equipment approved was $50,000 for police, fire, and other department mobile and hand-held radio replacement and related equipment; $50,000 for the replacement of computers and printers; 10 vehicles for police, fire, parks and recreation, and public works; and fire equipment (defibrillator and exhaust fans for $9,281).

The city is continuing its program to provide video cameras in all police units. Due to limited capital outlay resources in the General Fund, 34 video cameras, 1 explosive device suit and 5 SWAT vests were funded from the Risk Management Fund. Eleven police vehicles were also funded from the 1/16% Police GRT Fund.

The Fire Department will replace 2 engines through loans from the New Mexico Finance Authority at very low interest rates. The debt service will be funded from the State Fire Fund.

Human Services Providers

For FY 03/04, the city of Santa Fe continued its commitment to support the various human services agencies by appropriating $652,331 from the General Operating Fund which represents a 2% allotment of the state-shared gross receipts tax revenue projection.

Children and Youth Activities

For FY 03/04, the City Council appropriated $1,012.646 for the Children and Youth Activities Program, which represents the allotment of 3% of the state-shared gross receipts tax revenue projection (with some carryover from the prior year).

In other fund programs, the following appropriations were approved:

Santa Fe Trails Bus System

The City Council recommended funding in the amount of $6,274,219 for the transit system, grant matching, Santa Fe Ride and Welfare-to-Work. This included an U.S. Department of Transportation grant providing $591,069 for FY 03/04 transit operations. New FY 03/04 U.S. Departments of Transportation and Health and Human Services grants totaling $482,815 provided most of the revenue to support the Welfare-to-Work transit program.

Solid Waste Management

The Solid Waste Enterprise Fund operations revenues and expenses are balanced. An 18.35% increase in rates for commercial and residential provided needed revenue to balance, support the recycling program without the $395,000 transfer from general fund, and compensate for not receiving a $200,000 rebate from the Santa Fe Solid Waste Management Agency (SFSWMA) in the FY 03/04 budget. The rate increase also enables Solid Waste to initiate an internal repayment plan for an advance to replace critical equipment.

Water Operations Enterprise Fund

The budget is balanced for current operations, and a plan has been put in place to start funding reserve funds recommended by the bond ordinance and fiscal management. The rate covenant requires revenue to be in excess of operations and maintenance and 125% of the debt service, which was met for FY 01/02 and FY 02/03 after a significant rate increase. At this point, projects are being adequately funded from the bond proceeds from the 2001 CIP bond issue.

Drought conditions in the southwest continue to affect water supply, and a number of conservation surcharges are applicable at various stages of projected water supply shortfalls. Projects are in the planning phase to increase the water supply with funding requirements in excess of $100 million.

Wastewater Operations

A rate increase was approved for FY 03/04 to ensure funds are available for the $16,000,000 sludge handling facility required by the state before 2007 as well as other projects.

Santa Fe Convention & Visitors Bureau (SFCVB)/Lodgers Tax

The programs funded to some degree from Lodgers Tax are the Sweeney Convention Center, Convention and Visitors Bureau, transit routes in the downtown/museum areas, overtime for police, fire, and sanitation services for special events, and administration of the tax. The city's tourism advertising contract is budgeted at $791,407. An additional $100,000 has been granted to support the Lensic, Santa Fe's Performing Arts Center in exchange for marketing support.

An increment of the tax was enacted as of May 2000, increasing the tax from 4% to 5%, the maximum currently allowed by the state. The additional increment is dedicated to a new convention center or major improvements to the current facility. The bonding capacity of this additional increment is about $13 million. The funds will accumulate in a segregated fund until a determination is made concerning the convention center's future. The mayor appointed a task force made up from diverse segments of the community to bring forward recommendations for this project based on the preliminary feasibility plan and design options. Various options for convention center development are under consideration by the governing body.

Municipal Recreation Complex

The Municipal Recreation Complex (MRC) is intended to be self-supporting through user fees to cover operations, maintenance and its associated debt service. The MRC continues to experience shortfalls in revenues and annual subsidies have been required to provide funding to supplement the debt service for the playing fields.

Major reductions in operating costs were initiated beginning in FY 00/01 in an effort to balance the fund. A marketing plan was also funded. For FY 03/04, the facility will be closed during three cold weather months and full-time staff will transferred to vacancies in other departments during that period of time.

A rate increase for weekend play has been approved for FY 03/04 to partially cover the operating deficit, but a subsidy of at least $365,000 from the CIP increment of the GRT is budgeted to cover the debt service portion of the playing fields.

Genoveva Chavez Community Center

The Genoveva Chavez Community Center (GCCC) was established to be operated with user revenues and a 1/16% gross receipts tax increment to cover its operations and maintenance. In its first year of operation, the user revenues and the tax subsidy allowed it to be self-supporting. While the FY 03/04 revenue and expenditures are balanced, the budget is very tight. Facility and interest revenues support 52% of the budget with the balance coming from the gross receipts increment allocated to the GCCC.

ECONOMIC FORECAST

U.S. Economy

Economic data continue to provide evidence of a slower recovery than originally projected. The recovery is fragile enough that the National Bureau of Economic Research has been unwilling to declare the 2001 recession at an end, even though the real Gross Domestic Product (GDP) has grown for 6 quarters. Joblessness has not been reduced as employers are striving to attain more and more production out of a dwindling workforce.

Inflation has not been a problem in the recovery. There have been concerns that the United States might in fact experience deflation as Japan did in the 1990s. The Federal Reserve has maintained the federal funds rate near 1% to fuel expansion. While Federal Reserve Bank monetary policy has been critical to sustaining the recovery, expansionary fiscal policy, combining war-time expenditures with the Bush administration tax cuts, has also served to bolster consumer demand.

Over the next year or so, the fiscal restraint dictated by budgetary realities at the state and local levels will partially offset the economic stimulation of federal fiscal policy. Widespread revenue shortfalls are forcing states and local governments to take steps to enhance revenues and cut spending.

New Mexico Economy

The New Mexico economy continues to perform well relative to the country as a whole, although not so well compared to the historical record.

Nonagricultural employment growth was 1.2% in 2002 compared to the 20-year average between 1981 and 2001. The 1.2% growth ranked New Mexico second among states for 2002. Personal income growth of 5.9% was second in the nation and first in the west.

Moderate growth is forecast for New Mexico in 2003 and 2004. Nonagricultural employment is expected to increase 2.0% in 2003 and 2.2% in 2004. Unemployment levels are expected to remain about 5.6% for both years. Personal income growth is expected to be around 5.8% in 2003 and 5.4% in 2004.

Santa Fe Economy

The Santa Fe metropolitan statistical area (MSA), as defined by Santa Fe and Los Alamos counties, is second in economic concentration to Albuquerque and third after Albuquerque and Las Cruces demographically in the state. New retail development continues in both the Albuquerque and Santa Fe MSAs.

Santa Fe’s unemployment has been significantly less than the state average. Santa Fe’s unemployment was 2.7% in 2002, compared to 5.5% statewide in nonagricultural employment. For 2003 and 2004, unemployment is forecasted to be 2.7%, compared to 5.6% statewide.

Personal income grew in Santa Fe at a 6.3% rate in 2002, compared to 5.1% statewide. Personal income in 2003 is expected to grow 7.1% locally, compared to 5.8% statewide.

The trend in gross receipts tax revenues suggests that this year's growth may be stronger than last year’s growth. The final gross receipts tax report for FY 02/03 indicates that gross receipts collected grew by 4.11% over that received in FY 01/02. Continued recovery from recession should result in a somewhat stronger performance in FY 03/04.

The economic forecast information on the U.S., New Mexico and Santa Fe economies were extracted from material from the summer 2003 edition of the University of New Mexico's "The FOR-UNM Bulletin: A Quarterly Economic Forecast of the New Mexico Economy".

Respectfully submitted,

Jim Romero
City Manager